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Price Insurance to Replace Mortgage Scheme

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Grain and Feed

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Report Highlights:

TH9112 In MY2009/10, the Government will revise its approach to the rice intervention program and replace its long-standing conventional mortgage scheme with a price insurance system. An insured price program is already in place for corn and tapioca.

General Information:**Price Insurance Scheme: A Solution for Controversial Intervention Program**

The Government regularly faces a large budget burden under its existing mortgage scheme. Each commodity program incurs huge losses when intervention stocks are released, particularly for rice. Although the stated objective of the mortgage scheme is to stabilize farm-gate prices, it has been used for political advantage for years. Intervention prices are regularly set well above market prices. This year the program reportedly benefited only 20 percent of all rice farmers despite higher participation (up to 30 percent participation in the current MY2008/09 program which set intervention prices at record levels set in the previous year) (Table 1). Around 60 percent of farmers participating in the program are in irrigated areas in the lower north and the central plain which account for a third of total rice cultivation. A study by the Thailand Development and Research Institute (TDRI) indicates that farmers derived 40 percent of the total program benefits but that poor farmers received little benefit from the programs (Table 2). The program benefited rice exporters, accounting for around 24 percent of the total benefit generated from the mortgage scheme. In addition, the resulting price distortion reportedly brought forward greater production of low-quality rice over the past five years as farmers used fast-growing rice varieties to maximize crop sales to the mortgage program.

The price insurance scheme will replace the mortgage scheme in MY2009/10 intervention program of major crops, including rice, corn, and tapioca. Insured prices will be based on production costs (including transportation cost from farm to the mills of buyers) with profit margin of 20-25 percent. Eligible tonnage will be based on average cultivation and yield of each crop and will be limited. This scheme is designed to benefit all farmers, particularly small-scale farmers. The program will pay the difference between insured prices and market prices at the end of contracts which are based on harvest pattern. The Bank for Agriculture and Agricultural Cooperatives (BAAC) will be responsible for the program administration. The Government will absorb the insurance premium until the program is fully implemented in the future. The scheme will enable farmers to manage the risk of price fluctuation, particularly during the beginning of the harvest.

Price Insurance Scheme for Rice will be finalized in early August

At the Cabinet meeting on July 21, 2009, the Government agreed with the framework of MY2009/10 rice policy to replace conventional mortgage scheme with price insurance scheme. The insured prices will be based on average production costs with profit margin. On July 29, the National Rice Policy Committee agreed to set insured prices of main-crop white rice paddy at 10,000 baht/ton (\$296/MT), based on average production cost with profit margin of 30-40 percent. Meanwhile, the eligible tonnage will likely be limited at 20 tons/farmer, based on an average farm size of 40 rai (6.4 hectares) with average yield of 400 kg./rai (2.5 tons/hectare). The Ministry of Agriculture and Cooperatives (MOAC) is reviewing insured prices of fragrant rice paddy and glutinous rice paddy which are expected to be lower than 13,000 baht/ton (\$413/MT).

Insured Prices Set for Corn and Tapioca

Insured prices have been set for corn at 7.10 baht/kg. (\$209/MT, 14.5 percent moisture content) which is around 10 percent higher than current market prices. The program will begin in August. Farmers will be able to participate in the program until November 2009. Meanwhile, insured prices for tapioca are at 1.70 baht/kg (\$50/MT, 25 % flour content) which is 40 percent higher than current market prices. The eligible tonnage for each farmer will be limited to 15 tons for corn and 12 tons for tapioca which is nearly equivalent to a credit line of 100,000 baht under the current mortgage scheme.

Appendix Tables

Table 1: Paddy Mortgage Scheme

Year	Number of Farmers	Paddy Pledges (Metric Ton)	Value (Million US\$)
1999/00	113,062	697,756	79
2000/01	168,483	1,618,496	202
2001/02	683,769	6,140,902	750
2002/03	497,906	5,648,743	695
2003/04	177,137	2,608,234	309
2004/05	546,503	5,503,519	1,098
2005/06	770,721	7,643,033	1,579
2006/07	227,132	3,055,687	635
2007/08	343,518	4,420,174	1,700
2008/09 1/	1,087,019	10,685,543	3,084

1/ As of July 19, 2009

Source: Bank for Agriculture and Agricultural Cooperatives (BAAC)

Table 2: Estimated Benefit of Rice Mortgage Scheme

Sector	Contribution of Benefit (%)
Farmers	40
Millers	14
Exporters	24
Warehouse owners	4
Gov't agencies	14
Death weigh loss	4
Total	100

Source: TDRI

End of report